

**MASTER
NEGATIVE
NO.94-82107-4**

COPYRIGHT STATEMENT

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted materials including foreign works under certain conditions. In addition, the United States extends protection to foreign works by means of various international conventions, bilateral agreements, and proclamations.

Under certain conditions specified in the law, libraries and archives are authorized to furnish a photocopy or other reproduction. One of these specified conditions is that the photocopy or reproduction is not to be "used for any purpose other than private study, scholarship, or research." If a user makes a request for, or later uses, a photocopy or reproduction for purposes in excess of "fair use," that user may be liable for copyright infringement.

The Columbia University Libraries reserve the right to refuse to accept a copying order if, in its judgement, fulfillment of the order would involve violation of the copyright law.

Author:

U.S. Interstate commerce
commission

Title:

Federal valuation of the
railroads in the...

Place:

Philadelphia

Date:

[1915]

94-82107-4
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

Business
D530.7
Un3435

U. S. Interstate commerce commission.
Federal valuation of the railroads in the
United States; synopsis of statement filed
with the Interstate commerce commission by the
Presidents' Conference committee preparatory
to oral argument before the Commission on Sept.
30 and Oct. 1 and 2, 1915. Philadelphia
1915,
41 p.


1. Railroads -  U. S. - Valuation.

RESTRICTIONS ON USE:

TECHNICAL MICROFORM DATA

FILM SIZE: 35mm

REDUCTION RATIO: 12x

IMAGE PLACEMENT: IA  IB IIB

DATE FILMED: 6/1/94

INITIALS: W.W

TRACKING # : MSH 01394

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.



2.0 mm

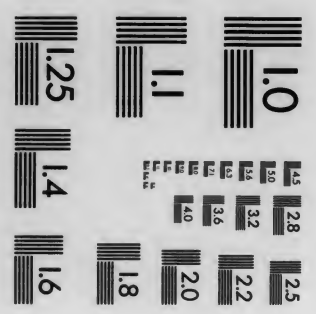
ABCDEFGHIJKLMN OPQRSTU VWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

1.5 mm

ABCDEFGHIJKLMN OPQRSTU VWXYZ
abcdefghijklmnopqrstuvwxyz1234567890



PM-MGP 13"x18" METRIC GENERAL PURPOSE TARGET PHOTOGRAPHIC



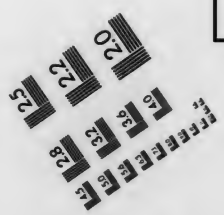
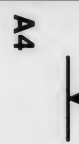
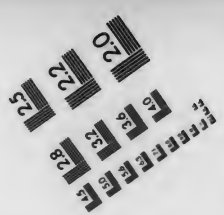
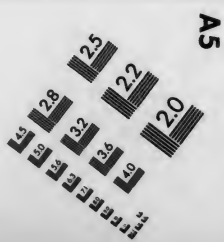
ABCDEFGHIJKLMN OPQRSTU VWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

ABCDEFGHIJKLMN OPQRSTU VWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

ABCDEFGHIJKLMN OPQRSTU VWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

ABCDEFGHIJKLMN OPQRSTU VWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

1.0 mm
1.5 mm
2.0 mm
2.5 mm



PRECISIONSM RESOLUTION TARGETS



1303 Geneva Avenue
St. Paul, MN 55119

ABCDEFGHIJKLMN OPQRSTU VWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

4.5 mm

3.5 mm

ABCDEFGHIJKLMN OPQRSTU VWXYZ
abcdefghijklmnopqrstuvwxyz1234567890



U.S. Interstate Commerce Com-
mission

Federal Valuation of the Railroads
in the United States

D530.7 - Un3435

Columbia University
in the City of New York

THE LIBRARIES



Graduate
SCHOOL OF BUSINESS
Library

FEDERAL VALUATION

OF

THE RAILROADS IN THE UNITED STATES

Synopsis of Statement filed with the Interstate Commerce Commission by the Presidents' Conference Committee preparatory to oral argument before the Commission on September 30 and October 1 and 2, 1915.

Copies may be obtained from
THOMAS W. HULME, General Secretary
937 Commercial Trust Bldg.,
Philadelphia, Pa.

Business

D530.7

Un 3435

ADDITIONAL
VOLUME
AVAILABLE

AUG 12 1953 88

INTRODUCTION.

The railroads in the United States comprise approximately 250,000 miles of line and with double tracks, yards and sidings 376,000 miles of track. The Presidents' Conference Committee represents 214,704 miles of railroads, approximately 86 per cent. of the railroad mileage in the United States. The capital securities of these companies outstanding in the hands of the public on June 30, 1913, approximated \$15,330,000,000, divided into about 60 per cent. of bonds or other forms of indebtedness and 40 per cent. of stock, the latter owned by over six hundred and twenty thousand stockholders. Probably over 10 per cent. of these securities are held by insurance companies and savings banks. Insurance companies have thirty-four millions of policies outstanding and the savings banks have ten million seven hundred thousand depositors. During the year ending June 30, 1914, the operating revenues of the railroads amounted to over three billion one hundred and twenty-five millions of dollars; their expenses of operation to over two billions of dollars and their net operating income to over eight hundred millions of dollars. The number of employees for the year ending June 30, 1913, was 1,815,239 and their

compensation aggregated \$1,373,000,000. These carriers paid in taxes for the same period over one hundred and twenty millions of dollars.

This is the transportation plant, the value of the constituent parts of which the Commission is required to ascertain and report. The Act requires the Carriers to co-operate with and aid the Commission in the valuation of their properties and the Carriers have appointed engineering, land and accounting committees who since the passage of the Act have been in constant conference with Director Prouty and the Division of Valuation as to many of the details involved in making the valuation. Co-operation is essential to the efficient performance of the work and the Carriers urge that such co-operation be continued and enlarged so that the Commission may secure all the facts necessary to the accomplishment of the task of valuation. Particularly the Carriers urge the Commission to avail itself of the information contained in the records of the Carriers and suggest that in such matters as the ascertainment of land values particularly that a proper determination thereof is impossible in the absence of full knowledge of the carriers' claims. The Carriers also suggest that the detailed work of the valuation and the collection of the necessary data therefor depends upon the substantive principles of law under which the valuation must be made. The Carriers believe the time is near at hand when these principles should

be declared by the Commission for the guidance of the Government field parties.

It is impossible at one time and hearing to discuss all the questions involved in the valuation. As further questions arise the Carriers will apply to the Commission for permission to discuss the same by argument and brief. The questions now considered correspond in many respect to those discussed at the public hearing before the Director and the Division of Valuation and are generally confined to the preparation of the inventory and the ascertainment of the three cost figures prescribed by the Valuation Act. These questions follow:—

- I. The reasons for the enactment of the Valuation Act of March 1st, 1913.
- II. Cost of reproduction new.
- III. The determination of unit prices.
- IV. Appreciation and depreciation.
- V. Land.
- VI. The meaning of the phrase "owned or used for the purposes of a common carrier."
- VII. The Act requires a valuation of all the property owned or used by each carrier, including therein property the cost of which was charged to expenses or surplus.
- VIII. The other values and elements of value.
- IX. The form of the valuation reports.

I.

THE REASONS FOR THE ENACTMENT OF
THE VALUATION ACT OF MARCH 1st, 1913.

The Interstate Commerce Commission first discussed the question of valuation of railroad property in its Second Annual Report in 1888 and from 1903 down to the time of the passage of the Valuation Act the Commission in its Annual Reports to Congress repeatedly urged the passage of such legislation. It appears from the various recommendations made by the Commission in its Reports to Congress and which doubtless were the controlling force in securing the enactment of the legislation that the valuation was essential:—

(a) To obtain a trustworthy estimate of the relation existing between the present worth of railroad property and its cost to its proprietors.

(b) In determining whether rates as fixed by the Government are confiscatory.

(c) In connection with railway taxation.

(d) In the ascertainment of a proper depreciation reserve.

(e) In testing the accuracy of the balance sheets of the carriers.

(f) To the organization of railway statistics in general.

(g) In determining whether the railroads are under or over-capitalized.

The Railroads Securities Commission in its Report to the President also advocated the valuation of railroad property.

The reports of the Senate and House Committees and the debates in both Houses show that the recommendations of the Commission had been considered, and the existence of a purpose that the valuation might be used in connection with rates, capitalization, taxation and the regulation of the issuance of securities. These debates and reports establish that the Act requires the Commission not only to find final value but to ascertain and classify every element of value so that in every case that can subsequently arise all questions with respect to final value may be determined by the Courts. The valuation bill originally provided for a physical valuation but this and every other limitation was removed. As finally passed the bill requires the ascertainment of all values and elements of value existing in railroad property irrespective of how the property was acquired or why the value arose. The original cost to date; cost of reproduction new; cost of reproduction less depreciation and every other value and element of value is to be ascertained and reported; every element of value which can possibly be considered by a Court in determining the question of fair valuation is required by the Act to be reported.

II.

COST OF REPRODUCTION NEW.

The determination of cost of reproduction new involves the ascertainment of the cost of reproduction of the separate units of railroad property; the overhead charges which arise in the construction of a railroad; and the cost of materials on hand and working capital.

In determining the cost of reproduction new reference shall be had to the conditions as they exist at valuation date, but the historical construction of the property must be taken into consideration whenever a rational engineering program for reproduction would so warrant or require. Conditions existing on the valuation date as to population, business capacity, and productiveness and property values in the territory served by the carrier are to be taken. The same quantities and classes of grading materials which were originally obtained on the right of way will be deemed to be obtainable in the same places, and the present cost of moving the same will be ascertained. The cost of acquiring other necessary materials from the most available sources on valuation date will be ascertained.

Knowledge of original construction will aid in the ascertainment of cost of reproduction under present conditions. A rational engineering program for reproduction should be used as the basis

for the estimate and it is to be expected that ordinarily the representatives of the carrier will be able to agree with the representatives of the Commission upon a proper engineering program for such reproduction. The property of the carrier to be reproduced is to be considered as non-existent. The general conditions outside of the right of way and terminal lands of the carrier shall be considered to be as of date of valuation. The cost of reproducing all the maps, profiles, records, etc., of each carrier including the cost of obtaining information must be included in the cost of reproduction. The cost of acquiring the necessary materials from the most available source as of valuation date will be taken.

ASCERTAINMENT OF GRADING QUANTITIES .

In the ascertainment of grading quantities to be included in the reproduction inventory yardage and classification must be specified. In determining the quantities for the ascertainment of cost of reproduction new, all of the yardage that has been moved to make the roadbed as it now exists should be included. The original records of the carrier when corroborated furnish better evidence of grading quantities than present measurements. Shrinkage and subsidence must be ascertained and allowed for. The Commission should ascertain as nearly as possible the grading quantities that have been actually moved and placed in existing lines, and where these quantities are determined by re-measure-

ment it will be necessary to make allowance for shrinkage and subsidence to arrive at the quantities actually moved and placed.

TIME REQUIRED TO REPRODUCE THE PROPERTY.

It is necessary to determine the length of time that would be required to carry out a complete program for reproduction because time directly affects the amount of some large items of cost such as interest during construction, taxes, insurance, unit prices, etc., etc. No general rule can be applied. Each case should receive the same thorough attention as if the properties under valuation were in fact non-existent and about to be developed. Consideration should be given to location, mileage, character of construction, terminals, supply of labor and materials, and means of transportation. The time required for construction should be determined by considering the property of the carrier as a whole rather than upon the basis of the reproduction of each of its component parts, although construction may progress at several points at the same time.

The time allowed should be sufficient for the completion and putting in place of all of the physical parts of the railroad, and a proper co-ordination of the material elements thereof.

The actual experience of the carriers will furnish a good basis for the determination of the engineering program and the length of time required for construction.

CLEARING AND GRUBBING.

This is a part of the necessary grading of a railroad. The cost of clearing and grubbing is a part of the grading cost. An allowance must be made therefor in all cases where it actually occurred even though the road runs through what is now tillage land.

TOPOGRAPHICAL AND GEOLOGICAL CONDITIONS.

In considering the structural features of reproduction, the geological and topographical conditions should be assumed to be as of the time of the original construction, except where they have subsequently been altered over areas entailing considerable additional constructional difficulties which were met by the railroad from time to time as they arose. The material by which the present roadbed was produced in its present condition shall be assumed to be necessary to reproduce the same.

FORM AND MANNER IN WHICH THE ROAD SHALL BE REPRODUCED.

The program to be assumed for reproduction now should take into consideration the historical construction of the property as far as necessary to obtain a consideration of all the relevant facts involved in a fair reproduction of the property. The work will be done under present day methods

of construction best adapted to the territory where the railroad to be reproduced is located. The method of handling the various construction features will be established appropriately to the conditions as each carrier is valued. Thus, it must be assumed that excavation and embankment are made by one or another of the various methods employed in railroad building, such as team work, hand labor, steam shovel, hydraulic pump, scraper work, or other suitable means. Excavated materials are generally either wasted, or placed in roadbed and the haul ascertained, gravel and other materials are to be obtained from the most economically available sources, quality and other conditions considered, and not necessarily from the source of original construction.

OVERHEAD CHARGES.

The reproduction inventory should include specific findings as to overhead charges, such as organization expenses, commissions, financing, administration, legal, engineering, interest during construction, taxes, liability and other insurance, contingencies including omissions, losses, increased cost due to accidents, personal injuries, fires, storms, strikes, etc., etc.

The cost of the various physical items composing the railroad, when added together, will not represent the cost of a completed railroad, for expenses of the above kinds enter into the construction cost of every railroad, and appropriate amounts therefor

must be included in the cost of reproduction new. The propriety of their allowance in the cost of reproduction new is generally affirmed by the Reports of Commissions and the Decisions of the Courts.

ENGINEERING.

The cost of engineering is not uniform. It varies with the quality and quantity of the work. The character of the country, topography, geology and density of population, as well as the extent of construction, all affect the relation or ratio of engineering expense. Valuation practice is not settled as to the amount or method of arriving at the allowance for engineering. The records of the Carriers under consideration should be carefully examined and in the absence of records an estimate should be made with a minimum allowance of 5 per cent. for road, 2 per cent. for equipment and $6\frac{1}{2}$ per cent. for construction requiring costly engineering work such as large terminals in large cities.

CONTINGENCIES.

Strictly speaking, contingencies is not an overhead cost. It is a construction cost and belongs in the body of the inventory and wherever possible it should be assigned to the appropriate accounts. This, however, is not possible in all cases, and the item of contingencies is usually considered an overhead cost and treated as such. The item includes unforeseen, uninvestigated, indeterminate or omitted items of construction expense and varies

with different properties and different parts of the same property. Contingencies are of construction or of inventory. It is more difficult to make an accurate estimate of the cost of reproduction new than the cost of actual construction about to be undertaken.

INTEREST DURING CONSTRUCTION.

Interest during construction period is a fundamental element of cost and the amount therefore must be ascertained and included in the reproduction cost of the railroad. An appropriate financial program should be agreed upon between the Carrier and the Government to provide money and materials as needed. The capital should be raised in advance to provide for at least one year's work under the engineering program. This is the customary as well as the most practical economical method.

TAXES.

The court decisions support the practice to include taxes during construction as part of the cost of reproduction. Taxes vary in the different States and no uniform rule can be laid down.

PROMOTION, ORGANIZATION AND ADMINISTRATION.

These overhead costs must be determined by the experience of the Carriers. The early organization may be small but must increase with the development of the project.

MATERIALS ON HAND AND WORKING CAPITAL.

Every railroad company must always have on hand working capital in the form of cash to meet pay-rolls, bills and immediate demands; also to have on hand materials, supplies and other working assets. These items are essential and are so recognized by the Decisions of Courts and Reports of Commissions. In order to properly determine the cost of reproduction new proper amounts to cover cost of materials on hand and working capital must be added to the cost of reproduction of the separate units in actual use and the overhead charges referred to heretofore.

III.

THE DETERMINATION OF UNIT PRICES.

The prices to be used in the valuation should be arrived at by a consideration of prevailing prices, price tendencies and conditions affecting labor and material markets during a reasonable period of time next preceding and at the date as of which the valuation is to be made, due consideration being given to the existence or non-existence of active railroad construction during that period. The most valuable guide for use in this valuation will be "weighted average" the prices of those commodities which fluctuate violently in price and have no definite price tendency.

The consideration of price tendencies is most important in determining a basis of prices, but it will be more accurate to determine price tendencies with reference to particular commodities rather than with reference to commodities in general because the price tendency of some commodities is upward and of other commodities the price tendency is downward. Periods of active railroad construction coincide with periods of high prices, and periods of stagnation coincide with periods of low prices.

The importance of the subject of unit prices is so great, and so many different elements enter into a proper consideration of it, some of which depend upon local conditions and peculiar cir-

cumstances, that no prices ought to be applied even tentatively, by the Government valuation forces without the fullest consultation with representatives of the carrier whose property is being valued.

IV.

APPRECIATION AND DEPRECIATION.

In order to determine the cost of reproduction less depreciation the amount of appreciation must be added to and the amount of depreciation must be subtracted from the cost of reproduction new.

Appreciation is an improvement in the quality and usefulness of the physical items of property, whereby there is an increase in the worth or value of such physical items over and above their reproduction cost new.

Solidification and seasoning reduce cost of maintenance of property and of train operation and give a higher value for use in the operation of trains because of greater safety and speed.

Adaptation, where the facts disclosing the same are known or ascertainable, should be noted and taken into account, in determining the amount to be added to the cost of reproduction new on account of appreciation.

Depreciation is a lessening of worth or value in use or for the purposes of the use of physical property. There is no depreciation in a composite property when the deterioration in its physical parts is taken care of by proper replacements as due.

The depreciation allowance provided for in the accounts does not measure the depreciation referred to in the Valuation Act, and should be entirely disregarded in determining such depreciation.

The railroad is new when construction is completed and all of the physical parts are properly co-ordinated, but at this time the separate units of a railroad are not new. They have all departed more or less from a condition of "newness," depreciation of the separate units must be measured from such condition or the depreciation of the separate units occurring during construction must be added as a part of the cost of reproduction new.

Mere accrued deterioration in one or more of the physical items of simple properties of a railroad is not depreciation, unless thereby the value of the railroad as a whole is lessened, because it is the value of the railroad "in its entirety" that is to be ascertained, and the criterion is "the value of the system as completed," for the uses and purposes intended.

The depreciation required to be taken into account in determining the cost of reproduction less depreciation arises only from use and age, and does not include that resulting from obsolescence or inadequacy.

Deterioration arising from age and use is accrued or matured. The latter is known as deferred maintenance and exists where there is a failure to make proper repairs or replacements as due. This is the depreciation required by the Act to be deducted in determining the cost of reproduction less depreciation.

Accrued deterioration is that form of deterioration which has not progressed sufficiently far to require

a replacement, and is not to be taken into account in determining the cost of reproduction less depreciation.

The Commission is specifically empowered by the Act to make a classification of the elements that constitute the ascertained value as found by them, which classification need not coincide with the detail required in the inventory. The meaning of the phrase "each piece of property" as used in the Act is largely determined by the classification adopted by the Commission.

The tract is but one unit of property devoted to a single use, and in determining depreciation should be so treated.

It is common knowledge that a newly-constructed railroad has no greater length of life than an old railroad which has been properly maintained, and is not only of no greater value as a piece of physical property than is the old railroad, but is actually of less value.

There being no increase in value by reason of a newness it necessarily follows that the ageing of a railroad has nothing to do with its value as a physical property, other than to increase such value by appreciation.

The "value of the property invested" in a railroad is preserved indefinitely by due and proper replacements, and, therefore, unless these replacements are neglected, there is no depreciation in the railroad.

The inquiry to be made is the determination of the extent to which repairs and replacements have been neglected.

The element of accrued deterioration, that is, the loss of service life in the simple properties of a railroad, the same being still in place and in useful serviceable condition, should not be considered as an element of depreciation, because, as has been demonstrated, this element does not affect the value of the railroad or the investment, and the sole and only purpose of the Valuation Act is to ascertain value.

Accrued deterioration not only should not be considered, but it would be utterly impossible for any man, or body of men, no matter how expert or conscientious they might be, to fairly determine the value of the railroad by any such method. The expectancy of life of the various properties of a railroad can only be determined by a guess or an estimate, in the making of which the length of service already had of the property, or its age, is one of the least facts to be considered. Use is a far more important factor than age in determining length of service life, and the extent of the use varies not only on different railroads but on the same railroad.

It follows that the attempt to measure accrued deterioration, or expectancy of life, of the various properties of a railroad being but a most uncertain guess, that the summing up of thousands of such guesses made by hundreds of different guessers,

each pursuing his own method of guessing, in order to determine depreciation, and thereby reduce value, would be to make valuation an absurdity and the result obtained worthless for any purpose.

There is but one way of fairly determining the amount of such deferred maintenance and that is by personal inspection of the property by competent experts, who have first familiarized themselves with the practice and policy of the particular carrier in the maintenance of its property, and who understand the use required to be made of such property.

The property should be inspected jointly by the joint inspection party referred to and every reasonable effort made to agree: First, upon the question whether there is any deferred maintenance, and second, the amount of it, if any.

If agreement cannot be reached, then an examiner should be appointed to take and report the evidence submitted by the parties.

If the suggestions as to classification are followed there will be a proper classification for valuation and depreciation purposes of the properties of the railroad, in addition to the "inventory in detail" of all of the property for listing, checking and examination purposes. The classification as made will determine what is a "piece of property" and "cost of reproduction less depreciation" is to be ascertained of "these several classes" or "pieces" of property.

It is deemed proper, however, to extend the dis-

cussion so as to include methods for estimating the expectancy of life remaining in a simple property, for the reason that on some of the railroad properties, now being valued, it is understood that the Government field forces are engaged in estimating such expectancy of life of the simple properties, and if, despite the argument here made the Commission shall hereafter approve the making of such estimates, the order of approval, it seems to us, should be accompanied by such rules and directions as will cause the estimates made to approach most nearly to the truth.

It is for this reason alone that the following additional suggestions are made.

CLASSIFICATION.

For the purpose of meeting the suggestion in the Act that the road and equipment account be followed as nearly as practicable, the property may be classified as follows:—

1. Items and groups of property which appreciate.
2. Items for which cost of reproduction less depreciation and the cost of reproduction new are the same.
3. Track.
4. Machinery, tools and equipment.
5. Remaining classes.

LIFE OR MORTALITY TABLES.

Any method for the ascertainment of depreciation which is based on tables purporting to show the average life of the physical parts of a railroad which do depreciate will lead to inaccurate results. The length of life in a particular case may be much greater or much less than the average shown in such tables.

ACCOUNTING METHODS.

Accounting methods used for the creation of depreciation and renewal reserves are not selected or calculated to disclose the condition of the property at any particular time. Those methods vary from time to time to carry out the financial policy of the company.

THE STRAIGHT LINE METHOD IS ERRONEOUS.

Experience does not justify the thought that depreciation progresses uniformly as time elapses. Repairs and replacements are made necessary in some instances by use, in others by weather, and sometimes by both operating together. The effect of each is variable, depending upon the circumstances, and no principles have ever been established for the just measurement of the effect or either by any statistics which reliably reflect experience.

MINIMUM CONDITION PER CENT.

Whatever method may be employed for the ascertainment of the cost of reproduction less depreciation, a minimum service condition per cent. while in use should be established and the amount of existing depreciation should be fixed between the condition of the property before it depreciated and such minimum.

TRACK.

As hereinbefore pointed out, in the absence of deferred maintenance, there is no depreciation in the track items.

MACHINERY, TOOLS AND EQUIPMENT.

The depreciation, if any, existing at the valuation date may be ascertained in like manner as the depreciation of perishable property referred to below.

REMAINING CLASSES.

Property grouped under this caption should be divided into two groups: Non-perishable; Perishable.

NON-PERISHABLE.

Non-perishable property is that which does not depreciate when properly cared for and maintained and in which wear and decay are negligible. The only depreciation that can exist in this class

of property is deferred maintenance. Stone, concrete and brick structures, steel bridges and structures of other similar permanent material are illustrations of non-perishable property.

PERISHABLE.

Perishable property is that which depreciates by wear and decay notwithstanding proper maintenance.

V.

LAND.

Method of determination of present value. The present value of each piece of land used for transportation purposes, must be determined upon the same principles which govern in case of condemnation of private property for public use.

In the case of right of way, station grounds and terminals, as in the case of other lands of considerable area, the value of the whole is greater than the sum of the values of the parcels comprising the same, and there are elements, such as continuity, shape, suitability for railroad use, &c., which must be taken into account and allowed.

The present cost of acquisition of an equally suitable strip or tract of land, in or through adjacent lands in that vicinity, is relevant to the determination of the present value of lands used for transportation purposes.

In the determination of the "present value" of lands used for transportation purposes, the same class of evidence and all facts and information upon which experts judge land values should be ascertained and taken into account, as, for example, knowledge of *bona fide* sales of like or comparable lands in the vicinity, the market value for general—not including railway—purposes of similar lands, the market value for all its avail-

able—including railway—uses and purposes, and if the land has a peculiar value or special adaptation for railroad purposes, that element is to be allowed.

COST OF REPRODUCTION NEW.

In the case of land, as in the case of other parts of public utility properties, it has long been recognized by appraisers, commissioners, and Courts that, when reasonably determined, the present cost of acquiring the same—if non-existent or owned by some one else—is a fair measure of present value, and is the cost of reproduction.

The Valuation Act by paragraph "First," and also by paragraph "Second," requires the Commission to ascertain and report the cost of reproduction of each piece of right of way and terminal lands.

Paragraph "Second" requires the separate ascertainment of the elements involved in the cost of reproduction of lands, rights of way and terminals, in order that such elements may be compared with the corresponding elements included in total original cost, which is also by that paragraph required to be reported.

There are many instances where the reproduction method has been employed by the Courts, commissions, and appraisers, in the ascertainment of the value of public utility properties, including land.

THE MINNESOTA RATE CASES.

The Minnesota Cases do not condemn the reproduction method of valuing land, when reasonably applied. The Court condemned the particular method used in the Northern Pacific Case, because of defects it found therein and which are specified in the opinion.

The phrase "fair average of the normal market value of land in the vicinity having a similar character," and the phrase "the fair average market value of similar land in the vicinity, without additions by the use of multipliers, or otherwise, to cover hypothetical outlays," are not to be read to mean market value for general—not including railway—purposes. To so read, either of them would directly conflict with the principles stated or recognized in the opinion. These phrases mean the prices which the company would now have to pay, to carve an equivalent right of way out of adjacent lands having a similar character and value. Later decisions of the Supreme Court (San Joaquin Water Rate Case, 233 U. S., 454, and the Des Moines Gas Rate Case, decided June, 1915), are inconsistent with the claim that the value of the right of way and terminal lands of a railroad company—when shown to be more—is to be limited to the market value for general, not including railroad, purposes of land in the vicinity having a similar character. There is not support in the decisions of the Court, for their claim, that

the present cost of acquisition of the same or equivalent lands does not—when reasonably ascertained—constitute good evidence of the present value of those lands.

CLASSIFICATION OF LANDS.

Lands actually used for common carrier purposes shall be valued as such irrespective of whether owned or not. Lands owned and held for future common carrier purposes, in anticipation of reasonable need therefor, shall be valued as common carrier lands irrespective of whether now actually used or not. Lands owned and held for purposes other than those of a common carrier shall be valued under paragraph Third of the Act.

Lands are dedicated to public use within the meaning of this Act when originally acquired for the purposes of a common carrier by the present or any predecessor common carrier, but where the lands were acquired for other than the purposes of a common carrier the time of dedication to public use shall be taken to be the time when the intention was formed to hold the lands for common carrier purposes.

VI.

THE MEANING OF THE PHRASE "OWNED OR USED FOR THE PURPOSES OF A COMMON CARRIER."

The expressed language of the Valuation Act, as well as the decisions of the Courts, require a report of the value of all property, either owned or used, by every common carrier. All physical property so used, whether owned or not, by every common carrier, must be included in its inventory of property owned or used for common carrier purposes.

All physical property in use by the operating carrier should be included in its inventory, and if it is owned or used by any other carrier or carriers it should also be included in the inventories of each of such carriers or incorporated therein by reference. A full statement of the ownership and use of the property and the rights of the respective carriers with reference thereto should accompany each inventory where the property is included.

The value of all joint facilities tracks or other property jointly used, to each carrier having any title thereto, or right to the use thereof coupled with such use, must be determined and included in the valuation of the carrier's property required to be ascertained and reported.

Before the value of a joint facility to a particular carrier can be determined, all the facts in connection with its ownership and use must be determined in addition to the original cost, cost of reproduction new, and cost of reproduction less depreciation of the physical parts.

The different situations presented seem, from a preliminary examination to be almost unlimited, and the examples which follow are by no means complete. They will serve for the purpose of the present discussion.

Facilities affected by joint interests are interlocking plants; terminals and stations jointly owned or used; tracks jointly owned or used, including side tracks and industrial tracks; telegraph facilities jointly owned or used; trackage rights and leased lines; private freight cars; &c.

If facilities are being used by several carriers and meeting the requirements of each, it is an important fact to be brought out in this valuation, and it will be impossible to determine the value of different carriers of property jointly used until all the facts of user are fully known, as well as the so-called cost values thereof.

The rules by which the value to particular carriers of these facilities shall be determined cannot be properly worked out until the facts are understood, and it is essential to determine all the facts fully with reference to all property either owned or used by every carrier to be valued in this proceeding, before attempting to

allot the value to any particular carrier of any property affected by a joint interest. When all these facts are properly before the Commission, then will be the time to formulate the rules for the determination and apportionment of such value.

VII.

THE ACT REQUIRES A VALUATION OF ALL THE PROPERTY OWNED OR USED BY EACH CARRIER INCLUDING THEREIN PROPERTY, THE COST OF WHICH WAS CHARGED TO EXPENSES OR SURPLUS.

The principles of law affecting this question may be summarized as follows:—

(a) The express language of the Valuation Act requires the inclusion of all the property owned or used by the common carrier.

(b) The value of the property of the carrier is to be ascertained upon the same principles as would apply if the property were being condemned for a public use.

(c) The thing to be ascertained is the value of the property at the time it is being used for the public service, and the expressions—"real" value, "fair" value, "reasonable" value, "the present," value, "actual" value and "the" value, are used synonymously.

(d) The method of acquisition or the source of the funds used to pay for the property is immaterial.

(e) Additions and betterments paid for out of earnings and charged to operating expenses or surplus are the property of the carrier and must be valued as such.

(f) No reported case holds that additions and betterments paid for out of earnings should be excluded.

(g) Rate cases have decided that the value of additions and betterments paid for out of earnings must be included in the valuation found by the Courts.

(h) The cases have decided that appreciation in land values is the property of the carrier and must be included in the valuation.

(i) In determining what is a reasonable return upon the property of the carrier, expenditures for additions and betterments should not be included in operating expenses.

(j) The expenditure made by the owner is not the test of value.

It is important to bear in mind that the question before the Commission at the present time is not as to the adequacy of the net operating income of a carrier where expenditures, properly chargeable to the Road and Equipment Accounts, have been charged to expenses. The question as to the extent to which additions and betterments should be paid for out of earnings is one of railway economics and is a quite distinct question from that now before the Commission. The question, and the sole question now for consideration by the Commission is, the ascertainment of "the value of all the property owned or used" by every common carrier.

That additions and betterments paid for out of earnings or surplus are just as much a part of the investment of the carrier as if paid for out of capital is recognized by the accounting regulations of the Commission with respect to the Road and Equipment Classification (effective on July 1st, 1914), which regulations require that such expenditures shall be charged to this account, and which account is defined by the General Instructions as "designed to show the investment of the carrier in property devoted to the transportation service."

The suggestion that additions and betterments paid for out of earnings or surplus are not to be included in the property of the carrier upon which the return is to be calculated, is one directly contrary to the public interest. It means:—

1. The issue of new capital for all additions and betterments irrespective of whether they are presently, actually, or relatively remunerative, thus necessarily producing over-capitalization in point of fact, though not in point of law;

2. The deferring of expenditures for additions and betterments, with their consequent increased cost, interference with traffic, and injury to commerce;

3. A lessening of the protection of the carrier during periods of commercial or financial depression;

4. A weakening of the credit of the carriers, with the consequent increased cost of securing new capital;

5. A rate of dividend varying from year to year, thus giving a speculative tendency to railroad securities;

6. A diminution of efficiency in operation because of the attempt to force the adjustment of more or less inflexible operating expenses to fluctuation in business;

7. A reversal of the practice followed by all well-managed private concerns, where a reserve is invariably maintained;

8. That the rates of the future must be high enough to reimburse the stockholder for the deficiencies of the past.

VIII.

THE OTHER VALUES AND ELEMENTS OF VALUE.

The intangible values are a part of the present value of the carriers' property and must be ascertained and reported.

The classification of other values and elements of value. The other values and elements of value included in the Valuation Act group themselves into two classes:—

(a) Values which attach to specific pieces of property or units or parts of the property.

(b) Values which attach to the property as a whole.

Values which attach to specific pieces of property or parts of the property cannot be valued together, and must be valued separately. Any value which attaches to any particular item of physical property in addition to the value arising because of its "cost," must be so valued.

If the carrier owns a piece of right of way or terminal which renders all the service which the owning carrier can require therefrom, and in addition thereto the carrier receives a substantial revenue therefor from some other carrier, this value should be measured here.

Values which attach to the property as a whole can be valued together. Among such values are:—

1. Value of unity of use and connected operation.

2. Going concern value.

3. Location value—traffic.

4. Location value—operation.

5. Franchise value.

Value of unity of use and connected operation is that element of value which results whenever the separate articles of physical property constituting a railroad are joined together, not simply by a unity of ownership, but in a unity of use.

Going concern value is that element of value, in addition to the sum of the values of its component parts, which results from the act that the plant is in operation and has an established business, *i. e.*, in active and successful operation earning revenue.

Location value with reference to traffic is that element of value which represents the earning capacity of the property due to its favorable location with reference to command of traffic, including the existence of traffic-producing industries along its line, its advantage of connections with other carriers, the potential traffic in its tributary territory and all other features bearing upon its present and prospective traffic-earning capacity.

Location value with reference to operation is that element of value resulting from economy of operation due to gradient, alignment and other physical characteristics, climatic conditions, adequacy of terminals, equipment and other facilities, fuel supply, efficiency of operating organization and all other features bearing upon the cost of operation and maintenance.

Franchise value is that element of value represented by franchises and privileges.

Each element of value blends into all the others, deriving its value in connection with and contributing value to the others.

These factors, and undoubtedly many others which have not been mentioned, all contribute to the productiveness of the use of its property by a carrier, and although they attach to the property as a whole, they have an identity and value as real and actual as any physical part.

We do not at this time make any suggestions with reference to the measurement of the other values and elements of value. The method by which these other values and elements of value should be measured will be submitted to the Commission at some later time.

IX.

THE FORM OF THE VALUATION REPORTS.

THE FORM OF THE REPORT TO CONGRESS BY THE COMMISSION.

The Commission is required to embody in this report "final value," with an inventory of all the property of the carrier and the value thereof, as well as with the details prescribed in the paragraphs "First" to "Fifth" inclusive. The Commission in its report should make findings of fact and law in such detail, that a Court may determine not only the evidentiary weight of the Commission's finding of "final value," and whether the presumption created by the statute has been overcome, but also the principles of law which the Commission has applied in its findings of final value. The above requirements can only be accomplished by making the report of the Commission correspond generally in form to the report of the Valuation Division to the Commission, as hereinafter referred to, supplemented, of course, by the Commission's findings as to "final value."

THE SCOPE OF THE REPORT BY THE VALUA- TION DIVISION TO THE COMMISSION.

This report should contain the details required in the paragraphs from "First" to "Fifth," inclusive; should also contain a summary sheet showing

the three cost figures classified according to primary accounts (so far as these are followed) of the entire railroad, the analysis of the methods of valuation employed and of the three figures required by the Act, and the reasons for their difference, if any.

There should also be furnished an explanation in detail of the methods used in obtaining the figures reported under the several accounts, and also summary and assembling sheets for each account, which should be sub-divided by location in such manner as will enable the interested parties to make an accurate check of the same.

Tracks should be described as so many miles of track between certain points, of various weights of rail, and various kinds of ballast, and other track materials which may be covered between such points by one description. Graduation and tracks should be described, as nearly as practicable, by miles, or by some other proper section.

The summary and assembling sheets should show in detail all principal buildings and large bridges. Culverts and small buildings, such as section buildings of the same design, track signs, and other items of uniform construction, may be reported as so many per mile or other proper section.

The report should also state and report separately other values and elements of value, if any, together with the appropriate analyses required by this section of the Act.

Copies of all notes of every character made in the field should be furnished the carrier when taken

and the conclusions and deductions therefrom when made. When not so furnished the carrier should be given full opportunity to copy any field notes desired.

The carrier should also be permitted to make copies of and check all compilation sheets prepared by the government for preparing the assembling sheets and the compilations made by the government accountants.

It is suggested that only by the adoption of the plan outlined can there be secured that co-operation between the carriers and the government which the Valuation Act requires, and which is so essential to the efficient and economic performance of the work of valuation.

This book is due on the date indicated below, or at the expiration of a definite period after the date of borrowing, as provided by the library rules or by special arrangement with the Librarian in charge.

[illegible]

C28 (3-52) 100M

Manufactured by
GAYLORD BROS. Inc.
Syracuse, N. Y.
Stockton, Calif.

NEH APR 15 1994



0041407784

MSH 01394

Un3435

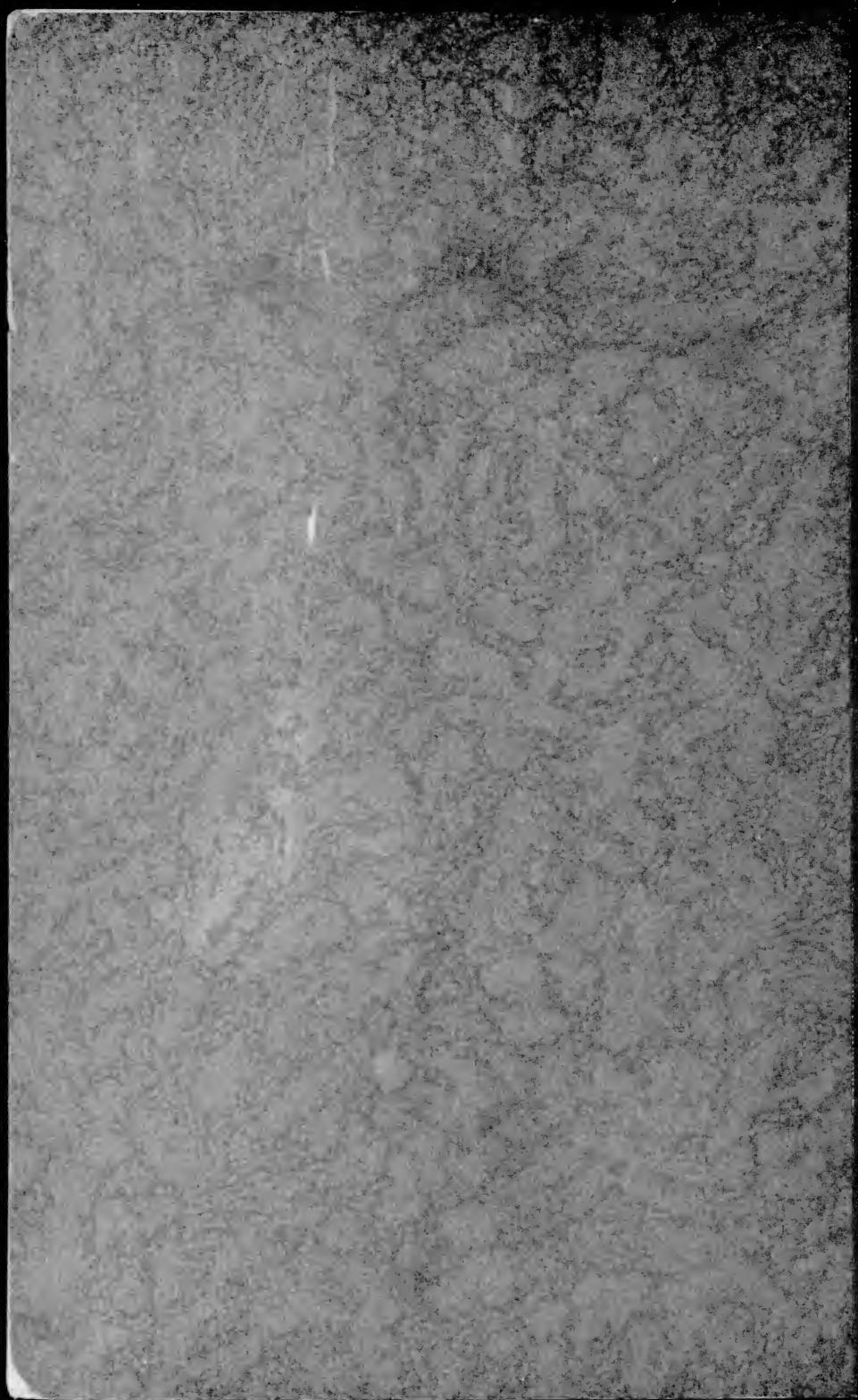
Un3435

~~U.S. Interstate Commerce Com-~~
~~mission.~~

Federal valuation of the railroads
in the United States.

OCT 21 1953

OCT 21 1953



**END OF
TITLE**